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DATE: September 2, 2016 **PAGES: 4**
TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*- $.0600*	$1.6800
Barrels	*- $.0400*	$1.6400
Weekly Average, Cheddar Cheese		
Blocks	*- $.0965*	$1.6960
Barrels	*- $.1555*	$1.6325

CHICAGO AA BUTTER		
Weekly Change	*- $.0075*	$2.0500
Weekly Average	*- $.0175*	$2.0725
DRY WHEY		
Dairy Market News	w/e 09/02/16	$.3213
National Plants	w/e 08/27/16	$.2926

NON-FAT DRY MILK		
Week Ending 8/26 & 8/27		
Calif. Plants	$0.8518	6,397,210
Nat'l Plants	$0.8658	15,859,128
Prior Week Ending 8/19 & 8/20		
Calif. Plants	*$0.8440*	*3,380,618*
Nat'l Plants	*$0.8672*	*12,507,859*

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FRED DOUMA'S PRICE PROJECTIONS…

Sept 2 Est:	**Quota cwt. $16.47**	**Overbase cwt. $14.77**	**Cls. 4a cwt. $13.38**	**Cls. 4b cwt. $15.48**
Aug '16 Final:	**Quota cwt. $16.66**	**Overbase cwt. $14.96**	**Cls. 4a cwt. $13.99**	**Cls. 4b cwt. $16.34**

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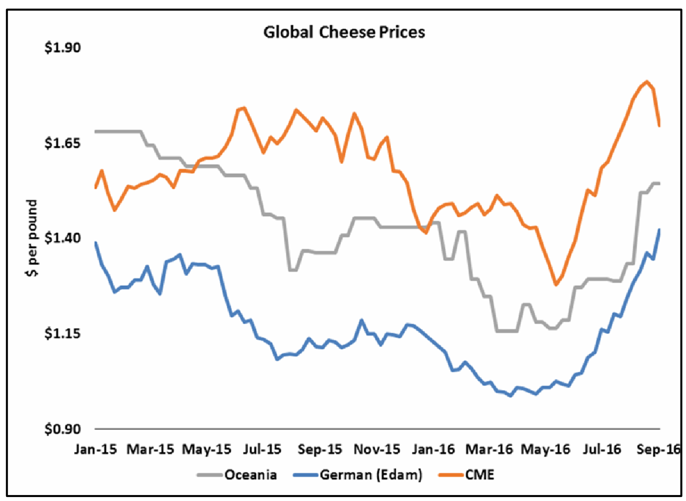
MARKET COMMENTARY: *(By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)*

Milk & Dairy Markets

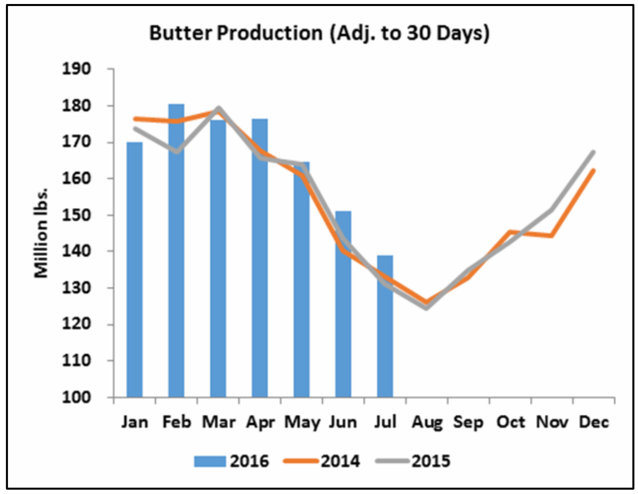
Cheese abounds. Inventories are record large, and in July manufacturers made another 1.02 billion pounds, 1.4% more than they did last year. Cheesemakers continue to shift production away from American styles in favor of Italian cheese, but there is still plenty of Cheddar to go around. The once-tight barrel market is apparently well supplied; 32 loads changed hands at the exchange this week. Barrels fell as low as $1.625/lb. early in the week and finished at $1.64, down 4¢ since last Friday. Blocks dropped 6¢ to $1.68, their lowest price since May.



Exporters sent just 51 million pounds of cheese and curd abroad in July, 7.1% less than the year before. U.S. cheese exports have suffered as foreign supplies have been widely available at steep discounts; they are down 17.6% for the year-to-date. Now that the U.S. cheese market is fading, perhaps export volumes will rise along with global cheese prices.

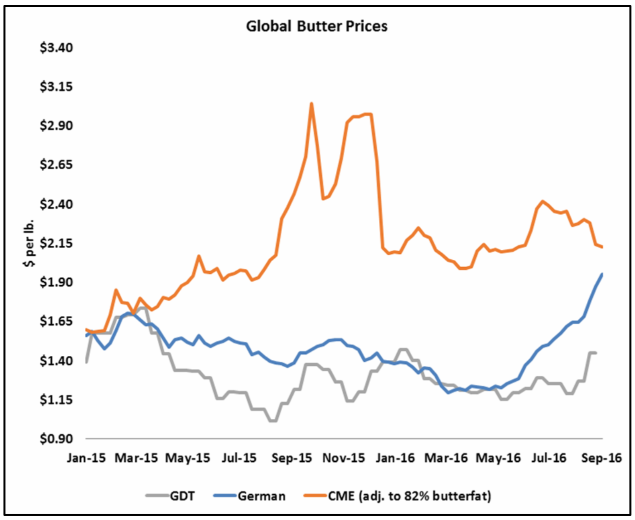
The spot butter market bounced Tuesday, proving that – despite robust production and large stockpiles – anxiety among buyers has not been extinguished. But it has at least ebbed. After rallying Tuesday, the spot market slipped a little lower each session, finally finishing Friday at $2.05, down 0.75¢ for the week. Like Cheddar blocks, spot butter posted its lowest price since mid-May.

USDA revised its estimate of June butter production downward, but output in both June and July remain well above year-ago volumes. At 143.6 million pounds, July output was up 6% from last year. This brings year-to-date butter production up 4.5% from 2015. Meanwhile, exports continue to languish. U.S. butter exports totaled 2.3 million pounds, down 25.7% from a year ago. At 4.9 million pounds, butter imports were 19.8% higher than last year.

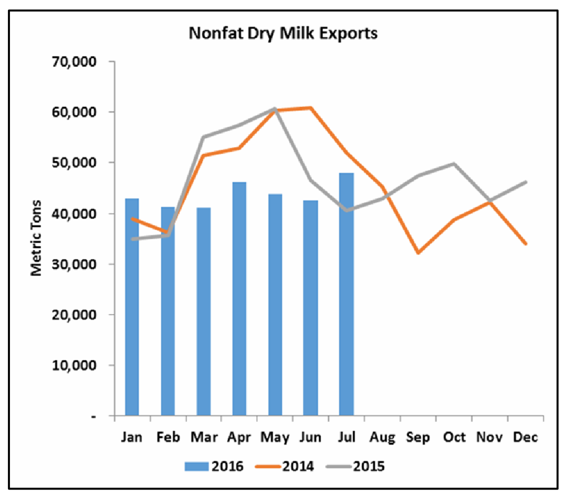


With the spot butter market heading toward $2, the once vast gap between U.S. and overseas markets has narrowed considerably. After adjusting for currency and butterfat differences, the weekly average spot butter market holds just a 17¢ premium to German product. Just two months ago spot butter was running 80¢ to 90¢ higher than European supplies.

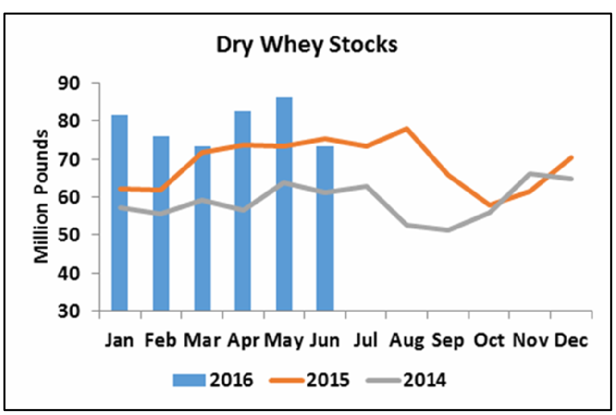
Manufacturers made more skim milk powder (SMP) and less nonfat dry milk (NDM) than they did a year ago. Combined milk powder output was up 4.8% from last year. However, NDM production was down 1.5%, and inventories stand 7.2% lower than the record-breaking volumes of last July. Compared to the previous month, NDM output was up nearly seven million pounds, and stocks climbed almost 20 million pounds, signaling that sales have slowed. However, exports impressed. Combined exports of NDM and SMP reached 106 million pounds in July, up 18.5% from a year ago. Exporters achieved the highest monthly shipment volume since October despite lower sales to Mexico thanks to better demand from Southeast Asia. With a boost from rising prices overseas, spot NDM rallied to 87¢, up 2¢ from last week.



The global whey market continues to rise as well, which helped buoy nearby whey futures, but deferred contracts slipped. Whey output was heavy in July, at 81.73 million pounds. That volume is higher than any month this year and up 1.2% from last year. Stocks declined more than four million pounds from June, a drop of 5.6%. At 68.7 million pounds, whey inventories are down 10.1% from last year thanks to robust exports. Manufacturers continue to send huge volumes of dry whey and whey protein concentrate abroad. Shipments of whey protein concentrate are up 43% for the year-to-date.



The steady rally in the whey market helped to boost Class III futures this week, and cheese futures seemed to pay more heed to the barrel market's tepid late-week recovery than to the early week slide. September through March Class III futures settled higher than last week; the October and November contracts gained 41¢ and 46¢, respectively. Nearly all Class IV contracts posted double digit gains.



USDA announced the August Class III price at $16.91/cwt., up $1.67 from July. California 4b milk prices climbed an equal amount, reaching $16.34. For the first time since November 2014, Class III prices exceeded year-ago levels; last month they were 64¢ higher than August 2015. August Class IV milk was

$14.65, down 19¢ from July but up $1.75 from a year ago. California 4a milk was $13.99, down 24¢ from the prior month.

Grain Markets

On Wednesday, corn futures dropped to their lowest level since 2009, and the wheat market slumped to prices not seen in more than a decade. September corn futures touched $3.01/bushel and the more liquid December contract traded below $3.15. But after probing those depths, the grain markets bounced back convincingly. December corn futures ended the week at $3.285, up 3.5¢ from last Friday.

The corn crop is large, but perhaps not as large as USDA projected a few weeks ago. At close to $3, farmers were inclined to hold on to all the corn they could and hope for a better day. That didn't jive with the huge volumes of corn U.S. exporters have committed to ship. Despite the fact that the crop is likely to overwhelm on farm storage capacity, the market may have to sustain a premium to keep bushels moving from disillusioned farmers to feed mills and ships.

After its longest losing streak in two years – seven consecutive sessions – the soybean market tried to claw its way back up. November futures finished at $9.525, still down almost 15¢ for the week. The crop flourished after nearly ideal conditions throughout August, the most critical period for soybean development. Demand is expected to be quite strong, so the market will remain volatile as it seeks an equilibrium between a record-breaking crop and a sizeable export lineup.

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FINALLY, CALIFORNIA'S STATE LEGISLATORS GO HOME!: *(By Rob Vandenheuvel)* This weekend is certainly a time to celebrate in California. Not only is it Labor Day weekend, but also a time to be thankful that our State Legislators can no longer wreak any more havoc in 2016! This was an incredibly active Legislative Session, with major laws passed on how businesses – including our dairy farms – operate. Specific to dairies, below is some discussion of the two largest issues tackled by the Legislature this year:

AB 1066, Ag Overtime Bill

This is certainly not news to any of you who have been reading our newsletter (or almost any other California ag-related publication), but AB 1066 (authored by Assemblywoman Lorena Gonzalez, D-San Diego) would change the overtime rules for agricultural employers/employees to require overtime pay for work beyond 8 hours per day and 40 days per week. Currently, California requires overtime pay for ag employees for work beyond 10 hours per day and 60 hours per week. And as you have read in this newsletter many times, California is one of the few states to even have *any* overtime requirement for ag employees.

AB 1066 is the resurrected version of a previous bill – AB 2757 – also authored Assemblywoman Gonzalez. AB 2757 was defeated earlier this year by the Assembly, but through the "gut-and-amend" process, was magically brought back to life under a new bill number – AB 1066. With only a minor change from the original AB 2757 (giving an extra 3 years to comply for employers with 25 or less employees), the bill squeaked by the Senate with the bare minimum votes (21), and came back to the Assembly.

In the Assembly, AB 1066 – virtually identical to AB 2757 – suddenly found 44 votes of support, 6 more than AB 2757 just two months ago, and more than 41 needed for passage. Who changed their mind in the past two months?

- Assemblyman Eric Linder (R-Corona) – voted NO on AB 2757, then YES on AB 1066
- Assemblyman Evan Low (D-Silicon Valley) – voted NO on AB 2757, then YES on AB 1066
- Assemblyman Bill Quirk (D-Hayword) – voted NO on AB 2757, then YES on AB 1066
- Assemblyman Richard Bloom (D-Hollywood) – did not vote on AB 2757, then voted YES on AB 1066
- Assemblyman Tom Daly (D-Orange County) – did not vote on AB 2757, then voted YES on AB 1066
- Assemblyman Adrin Nazarian (D-San Fernando Valley) – did not vote on AB 2757, then voted YES on AB 1066

Fortunately, most of you likely did not hear the debate of the bill on the floor of the Assembly and Senate. Some of the racially-driven comments by the supporters of the bill would have made your blood boil. They shamelessly ignored the valid economic arguments made by the opponents of the bill, and in some cases drawing completely unfounded parallels to the civil right movement or even slavery and the 14th Amendment. Emotion over substance was the name of the game on this bill.

AB 1066 now moves to Governor Brown's desk for either signature or veto. He must decide by September 30th, and has not yet indicated his plans.

SB 32/AB 197 and SB 1383, relating to the regulation of Greenhouse Gas / Methane

One of the biggest stories coming out of the 2016 Legislative Session is the passage of SB 32, along with its companion bill AB 197. These two bills combine to continue the path that Governor Schwarzenegger originally started us on with the passage of AB 32 back in 2006, launching California on its unwise (to put it kindly) business-killing, "go-it-alone" path towards tackling climate change. That bill established a goal of California reaching 1990 greenhouse gas emission levels by 2020. With less than 4 years away from that target, this year's Legislature doubled down on the goal, passing SB 32 which established a new mandate of "40% below the 1990 level by 2030."

As with the previous mandate, the Legislature does not prescribe how these goals are to be met. Instead, the bill empowers the California Air Resources Board (CARB) – an unelected bureaucracy with limited accountability to the taxpaying public – to implement regulations on the various industries in order to meet these broad goals laid on in the bill.

So what would this mean to the dairy industry? It certainly puts us squarely on the radar of CARB, as dairies emit methane – a form of Greenhouse Gas referred to in these discussions as a "Short Lived Climate Pollutant." That methane may come from the cow's manure, or from a burp/fart – either way, CARB wants their hands on it (figuratively, not literally, I think). In fact, earlier this year CARB published a proposal for how they would "achieve" these reductions. That proposal is terrifying, to say the least, setting unachievable goals and no realistic path to meet those goals. And the general path they do lay out includes comments like "500 dairy digesters by 2030" or conversions to pasture-based dairying in order to meet the goal. We could go for page-after-page about that proposal, which may be a good article for another day.

This is where SB 1383, a bill by Senator Ricardo Lara (D-Long Beach) came into play. This bill establishes the parameters under which CARB is required to operate in addressing dairy-related methane emissions. The bill establishes more realistic (although still ambitious) goals, including a 40% reduction in methane emitted from manure management operations and no direct regulation of "enteric emissions" of methane (fancy term for burps/farts). The bill also establishes specific analyses that must be conducted prior to the implementation of any methane-reduction regulation, including the economic and technological feasibility of the proposed regulation. There are more pieces of this bill that we will undoubtedly discuss in future issues of newsletter.

Is this a win for the dairy industry? On its face, it is difficult to call it that, as our dairy families will be strapped to a very costly (to say the least) regulatory scheme that none of our competitors around the country will have to deal with. However, I think at the end of the day, when compared to the unbridled authority that SB 32 gives to the California Air Resources Board, I believe we can take some solace in the fact that SB 1383 lays out a much more realistic path forward than what CARB was proposing, with specific safeguards requiring CARB to implement regulations that are both economically and technologically feasible, along with numerous other considerations that must be made along the way. Incremental improvement in an otherwise horribly bad policy is far too often the goal we have in Sacramento, and this year was certainly no exception.

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The MPC board and staff would like to wish all of you a happy and safe Labor Day Weekend!
Make sure to put some extra cheese on that burger!